



Western Canadian Coal

Western Canadian Coal Corp. Q1-2009 Conference Call Thursday August 14, 2008 at 7:30am (Vancouver)

Company participants:

John Hogg, President & CEO
Jeff Redmond, Director, Finance
David Jan, Manager, Investor Relations

OPERATOR: Good morning, ladies and gentlemen, and welcome to the Western Canadian Coal Corp.'s conference call to discuss the Q1 2009 earnings. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties during the conference, please press your star key, followed by the zero for Operator assistance at any time.

Before turning the meeting over to management, please be advised that this conference call will contain statements that are forward-looking and subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Refer to yesterday's press release for the associated risks. I would like to remind everyone that this conference call is being recorded today, August 14th, 2008, at 10:30 a.m. Eastern Time.

I will now turn the meeting over to Mr. John Hogg, President and Chief Executive Officer of Western Canadian Coal. Mr. Hogg, please goes ahead.

JOHN HOGG (President and Chief Executive Officer, Western Canadian Coal Corp.): Thank you, Operator. Good morning, ladies and gentlemen, and thank you for joining us today. I, myself, am calling from the United Kingdom and on the call with me today is Jeff Redmond, the Company's Director of Finance, who will shortly offer some of the financial details of the quarter, Greg Jones, our General Counsel, and David Jan, the Company's Manager of Investor Relations. They are in our Vancouver office.

First to our mines and starting with our Wolverine operations, while the 22 percent improvement in productivity did not result in higher coal production, we are pleased with he

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improved results. Due to poor productivity in the prior year arising from lack of equipment and experienced operators, we did not remove the planned amount of waste materials to release the coal. Part of our plans were to use the first quarter and part of the second quarter to remove the rock and get past this phase in the mine plan. This ultimately will result in increased coal production late in the second quarter. Meanwhile, the productivity improvements have continued through to July. As a result, we believe production at Wolverine for 2009 will be 1.7 million tonnes of hard coking coal and 200,000 tonnes of mid-vol PCI coal.

Now turning to our Brule mine. We encountered a fault which temporarily reduced production in the first quarter of 2009. As a result, we have modified our plans as we focus on other pits at Brule. The change will ensure we still achieve our expected annual run rate of 1.3 million tonnes per year. Brule continues to meet our expectations in both costs and production.

And for our newly-acquired Willow Creek Mine, we are now expecting to commence production in October 2008. The delay from previous expectations is due to the needed permits coming along slower. The slowdown is a result of the number of permits before the provincial government; otherwise, we have commenced refurbishing of the plant and readying the pit for mining. The mining contractor has been selected and is in the process of assembling shovels and receiving delivery of other pieces of equipment. We are on track with no surprises to report. Once we begin mining, we will ramp up production quickly to 60,000 tonnes per month initially, getting to its ultimate target of 75,000 tonnes per month by late 2009. For fiscal 2009 we expect to produce 300,000 tonnes of PCI coal.

Let me now turn it over to Jeff for the financial details, after which I'll return with some further comments. Jeff.

JEFF REDMOND (Director of Finance, Western Canadian Coal Corp.): Thank you, John. I won't take you through all the details of press release announcing our results but will offer these financial highlights for the quarter ended June 30, 2008. I will also point out that the MD&A and financial statements are posted on SEDAR and our website.

Sales in the first quarter of 2009 were \$130 million or 140 percent higher than in 2008 for the same quarter. This was based on sales of 583,000 tonnes of coal which is 7 percent lower than in the same quarter of 2008. The average price realized was \$224 Canadian per tonne in the current quarter as compared to \$86 Canadian per tonne a year ago. Sales for Q1 2009 included approximately 159,000 tonnes or 27 percent of the coal sold at prior year's contract prices.

The balance of the quarter's sales were at new contracted prices of US \$300 per tonne for hard coking coal and US \$248 per tonne for low-vol PCI coal. Going forward, all sales are at the

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new contract prices. The quarter-over-quarter increase in sales is primarily a result of the 160 percent increase in sales prices realized this despite the 9 percent increase in the Canadian dollar.

Cash costs in the first quarter of 2009 were \$120 per tonne, which consists of \$91 per tonne of costs at the mines and \$29 per tonne of costs in transportation. This compares to the first quarter of 2008 costs at the mines at \$56 per tonne and \$26 per tonne in transportation. The increase in transportation costs is a result of contractual price increases. The increase at the mines is a result of three factors: 1) increase in fuel costs; 2) increase in contractual costs for the mine operations; and 3) a higher stripping ratio from the higher waste removal and lower coal production. As a result, net income from operations during the first quarter of 2009 was \$53 million or 41 percent of sales.

Other items to note in the first quarter of 2009 as compared to 2008 include: general administration and selling costs increasing to 6.2 million in 2009 versus 3.9 million in the comparable quarter last year; this was primarily due to the increase in consulting expenses with the strategic review and process improvement consultants for the Wolverine mine; increase in sales and marketing expenses, which are a direct function of coal prices; and an increase in the Company's compensation programs. Interest and financing fees of \$9.7 million in the first quarter of 2009 included 5 million of non-cash charges relating to the accretion of liabilities and deferred financing fees. This compares to 5.7 million in the comparable quarter last year. The quarter-over-quarter increase is primarily due to new convertible debentures issued in November of 2007 and the new short-term debt acquired from Audley Capital in April of 2008. I note the short-term debt from Audley was paid off in July, 2008 so expect going forward interest costs to be lower. And lastly, many of you recall in Q2 2008 we wrote off the future income tax asset. With the improved financial position and the prospect of strong results, accounting rules requires us to write-back up the future income tax asset this quarter. This was approximately \$24 million.

All-in-all, the first quarter of 2009 was a record for earnings. The Company achieved net income of \$60 million or \$0.42 or \$0.27 per share on a basic and diluted basis respectively.

With the higher coal prices being received, our balance sheet has gotten stronger; the Company's working capital position has increased, as has our debt-to-equity ratio. We repaid the Audley short-term debt early and, with the strength of our financial position, acquired a \$50 million credit facility with Scotia Capital to aid in the development of the Willow Creek Mine and also aiding to the stronger balance sheet is the conversion of shares of some of the Company's convertible debentures.

And lastly, looking ahead for the rest of fiscal 2009, we expect to produce 1.7 million tonnes

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of hard coking coal, 200,000 tonnes of mid-vol PCI, 1.6 million tonnes of low-vol PCI, and we now project total cash costs to be in the range of 105 to \$110 per tonne.

With that, back to you, John.

JOHN HOGG: Thanks, Jeff.

A quick update on our 50% joint venture interest in the Belcourt Saxon properties. We have completed the feasibility study on the Belcourt properties. The study shows that the properties can produce up to 5 million tonnes a year of metallurgical coal. Based on the permitting required and engineering required, the mine has a potential to start up as early as 2013. We continue to work with our joint venture partner on the project's next steps. More on this to come.

And lastly, a final word on the ongoing strategic review that the Company has embarked on. As noted in a June 17th press release, several third parties have expressed an interest in continuing further in the process outlined by the Board. I will caution you, there is no assurance that the Company will complete a transaction. We rely on the process as determined by our Board, which has no preset outcome in place or fixed timeline to make a decision. At this time, there is nothing more to report, so with that, it would not be appropriate for me to comment further on this.

Operator, that concludes our prepared comments. We are ready to take questions as I hand the call back to you.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question and answer session. If you have a question, please press the star, followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speaker phone before pressing any keys. And one moment for your first question.

Your first question comes from Mike Plaster of Salman Partners. Please go ahead.

MIKE PLASTER: Thanks very much. Good morning, guys. I'd just like to discuss the costing piece here in a little bit more detail if we can. The – so the mine production cost of \$91 a tonne in this quarter, that was up about \$22 a tonne from the previous. Now you mentioned in your comments the three factors, the stripping cost, the fuel prices and mine contractor costs. Are you able to sort of break that down as to how much is attributable to each of those three factors?

JOHN HOGG: Yes, Mike. The contractor costs, the increases there about 5 or 6 percent overall, so that's not a big portion of it. The real big portion is the stripping, the amount of waste that we're having to remove, so on a unit cost basis, of course, we're moving more waste and obviously not getting the coal out as we should be. So that's where the major portion of it is, is in the stripping. Fuel costs have gone up and I think everyone's aware of that. And, Jeff, what – do

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you know what the exact amount is?

JEFF REDMOND: I think, John, the – rather than guess, Mike, why don't I get back to you and we'll follow up with a more exact number.

MIKE PLASTER: That'd be great. Thank you.

JOHN HOGG: It's a significant amount.

JEFF REDMOND: It is and it certainly has – it has outpaced sort of our original expectations.

JOHN HOGG: Yes, we had allowed for some increases, Mike, in our budgeting process, but I have to tell you the increases have far outstripped what we expected.

MIKE PLASTER: Okay. And just on the increased stripping costs, are you able to say what the strip ratio at Wolverine was for the quarter?

JOHN HOGG: Yes, we were in the 12 to 13 range. And, as you know, we're looking at about 10 for overall in the year. So it was high compared to what we originally forecast.

MIKE PLASTER: Okay and whereabouts are you at with that strip ratio today?

JOHN HOGG: That's starting to come down. This month it's – the month that we're in right now will be very similar, and then it will start to come down. And the biggest bulk of it, Mike, is what we've talked about before. We did not meet our production expectations in the prior year and our productivity was not where we wanted it to be, but we are gradually improving on that to the point now where we are meeting what our expectations are, the 1.7 to 2.1 million BCMs a month. That's the range that we need to be in.

MIKE PLASTER: Yes, okay. So just sort of looking, I guess, to the end of this fiscal year, where do **you expect to exit the year in terms of a strip ratio for Wolverine?**

JOHN HOGG: I think we'll be slightly higher than we forecast, and we were looking at in the high 10s so probably close to 11 –

MIKE PLASTER: Okay.

JOHN HOGG: Overall for the year.

MIKE PLASTER: Okay.

JOHN HOGG: And no change, Mike, on the life of mine as we work through this waste, then we'll get back to what we see as a life to mine, which is 9.6.

MIKE PLASTER: Right, okay. And on the transport costs, there was a bit of an increase quarter-over-quarter, you mentioned; I think that was on the contractual price increase. Is that on the rail rates? Or is that at the port?

JOHN HOGG: That's on the rail rate, Mike.

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MIKE PLASTER: Okay. And just finally on the G&A costs. I realize the increase was mostly on consulting fees. Presumably some of that would be coming off this quarter or next quarter. Is that – I mean what would be an appropriate run rate to use for the year on G&A?

JOHN HOGG: Jeff, do you have that?

JEFF REDMOND: I think we were probably about 1.5 million high this quarter if you were to normalize it for the year.

MIKE PLASTER: Okay, great and that's all I had for now. Thanks, guys.

OPERATOR: And your next question comes from Gary Lampard of Canaccord Adams. Please go ahead.

GARY LAMPARD: Good morning. Can I – back into the stripping ratio, I actually calculated out a 13.8 for the quarter. Waste stripping, 4.7 bank cubic meters and clean coal produced to 340,000 tonnes. Is that the right calculation?

JOHN HOGG: You're pretty close, Mike, yes.

GARY LAMPARD: Okay. So for the quarter about 13.8 and you think you're doing the (unintelligible) –

JOHN HOGG: The same or a little lower than the 13.8; I just have to check that figure, but I think it was a little lower.

GARY LAMPARD: Okay. And you think you're doing about that again at the moment, but for the full year you think 11 to one's the right number, is that correct?

JOHN HOGG: Slightly higher than we originally budgeted.

GARY LAMPARD: Okay. Do you have a feel for next year's stripping ratio already?

JOHN HOGG: I don't right in front of me, Gary, but certainly offline maybe we can talk about it sometime.

GARY LAMPARD: Okay.

JOHN HOGG: I'm in the UK now, so I don't have everything in front of me.

GARY LAMPARD: Okay. Can I ask – we're halfway through this quarter in terms of **production and sales**. Can you tell us what you've actually done so far this quarter?

JOHN HOGG: Jeff, do you have it there?

JEFF REDMOND: Yes, I can give you through to the end of July.

GARY LAMPARD: Okay.

DAVID JAN: Gary, it's David Jan here. It's – we're – we still expect to achieve it. I guess the best way to say it is, we still expect to achieve our annual guidance that we provided.

GARY LAMPARD: Yes.

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DAVID JAN: As you know, we generally don't provide guidance quarter-to-quarter.

GARY LAMPARD: Okay. All right. The expansion plan that you laid out earlier this year to go to five million tonnes per annum next year at a CAPEX of \$250 million, are you still on track for that?

JOHN HOGG: We're still on track, Gary. I think we'll be close to the 4.7, 4.8 million tonnes. Looking at going forward and looking at our latest forecasts on the capital side, we haven't changed the numbers on that.

GARY LAMPARD: Okay.

JOHN HOGG: And, as you know, I think you know where that distribution of monies is between the Willow Creek (inaudible) –

GARY LAMPARD: Yes.

JOHN HOGG: And EB.

GARY LAMPARD: Yes, I do, okay. A couple of more very quick questions. Who's the mining contractor that you've lined up for Willow Creek?

JOHN HOGG: It's Pelly Construction.

GARY LAMPARD: And they're the guys that currently do Brule for you, is that correct?

JOHN HOGG: Correct, yes.

GARY LAMPARD: Okay, good. Can you give us the CAPEX number from the Belcourt Saxon feasibility? Is there anything there?

JOHN HOGG: I can't at this stage, Gary. It's a little too early, okay?

GARY LAMPARD: Right. Are you envisaging from day one extending the rail line?

JOHN HOGG: Yes.

GARY LAMPARD: Okay. And final question, do you have a number for the PCI sales volumes from Wolverine for the quarter just gone?

JOHN HOGG: Jeff, do you have that in front of you? I don't have it here, Gary, but we can certainly get it to you. Probably that's the best thing to do.

GARY LAMPARD: Okay.

JEFF REDMOND: It was just under 60,000.

GARY LAMPARD: Great, terrific. Okay, that's it. Thanks a lot.

JOHN HOGG: Okay.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the star, followed by the one. As a reminder, if you are using a speaker phone, please lift the handset before pressing the keys.

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Gentlemen, there are no further questions at this time; please continue.

JOHN HOGG: Thank you, Operator. In summary, as I've discussed with you in previous calls, our focus continues to be improving productivity and controlling production costs. We are achieving positive trends on overall waste production with the introduction of better systems, improved maintenance standards and the continued development of our people. This, I am sure, will reflect in improved clean coal production as we go forward this year. Our strength and financial position will allow us to proceed with our plans to ultimately go to over seven million tonnes as we develop Willow Creek and expand our other properties.

Ladies and gentlemen, once again, thank you for participating today. Please call should you have further questions. Thank you.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your line.

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